

**CALIFORNIA FRANCHISE TAX BOARD**

Internal Procedures Manual  
Water's Edge Manual

Rev.: September 2001

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**EXHIBIT 11A**  
**COMPUTATION OF CURRENT EARNINGS AND PROFITS**

Example of Items Which Increase or Decrease E & P

(Not Intended to be All Inclusive)

**TAXABLE INCOME AS CORRECTED**

**PLUS: NONTAXABLE INCOME, INCOME PER BOOKS NOT ON RETURN**

1. Tax Exempt Interest
2. Proceeds of Officer's Life Insurance Policy
3. Increase in Cash Surrender Value-Life Insurance Policy
4. Nontaxable portion-Bad Debt Recoveries
5. Refund of prior yrs. Federal income taxes (cash basis)
6. Gains from dealing in TP's own stock (§1032)
7. Misc. nontaxable income

**PLUS: NONCASH DEDUCTIONS; ITEMS PREVIOUSLY CHARGED TO E&P,  
DEDUCTIONS ALLOWED SOLELY FOR TAX PURPOSES**

1. Dividends Received Deduction (§24402, 24410, 24411, 25106)
2. Excess of % depletion over cost depletion (watch out! do not duplicate at time of sale)
3. NOL deduction
4. Capital Loss Carryforwards
5. Cancellation of interest owing by accrual basis corp. previously deducted - no tax benefit due to Sec 111
6. Charitable contribution carryforwards

**The information provided in the Franchise Tax Board's internal procedure manuals does not reflect changes in law, regulations, notices, decisions, or administrative procedures that may have been adopted since the manual was last updated**

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7. Excess depreciation over straight line

### **LESS: EXPENSES OR LOSSES NOT ALLOWED FOR TAX PURPOSES**

1. Officer's Life Insurance Premiums

2. Amortizable bond premiums on tax exempt bonds

3. Fines & penalties

4. Political Contributions

5. Charitable Contributions over limitation amount

6. Excess Capital Losses

7. Expenses disallowed in audit not of capital nature; i.e. excess compensation, T & E, etc.

8. Section 267 losses and expenses

9. Current Federal Income taxes

10. State and foreign income taxes

11. §78 Gross-up and Subpart F income

### **EQUALS: CURRENT EARNINGS AND PROFITS**

Note: This Exhibit is for E&P determinations before 1987.